

FEDERAL AUDIT (Y2 - 156 EL-M. PBX's) APPEAL OPTIONS

A	B	C	D	E	F	G	H	I	J	K	L
NAME OF SCHOOL	SCHOOL RATE % LEVEL		SLD "ASM" COUNT	SLD COMMITMENT ADJUSTMENT REQUEST	PROPOSED "ASM" COUNT BASED ON ACTUAL INVENTORY	PROPOSED COMMITMENT ADJUSTMENT BASED ON ACTUAL INVENTORY OF "ASM" UNITS		SLD "ATA" COUNT	SLD COMMITMENT ADJUSTMENT REQUEST	PROPOSED "ATA" COUNT BASED ON ACTUAL INVENTORY	PROPOSED COMMITMENT ADJUSTMENT BASED ON ACTUAL INVENTORY OF "ATA" UNITS
1											
44	Fanberg/ Fisher El.		0	\$3,409.20	2	\$1,434.60		0	\$540.00	0	\$540.00
45	Flagler El.		2	\$1,974.60	2	\$1,434.60		0	\$540.00	0	\$540.00
46	Flamingo El.		0	\$3,030.40	7	\$1,912.80		0	\$480.00	0	\$480.00
47	Florida City El.		0	\$3,409.20	8	\$2,869.20		0	\$540.00	0	\$540.00
48	Fulford El.		0	\$3,409.20	2	\$1,434.60		0	\$540.00	0	\$540.00
49	Gilbert Porter El.		0	\$1,894.00	5	\$398.50		0	\$300.00	0	\$300.00
50	Gloria Floyd El.		2	\$1,316.40	2	\$956.40		0	\$360.00	1	\$270.00
51	Greenglade El.		2	\$1,316.40	2	\$956.40		0	\$360.00	0	\$360.00
52	Gulfstream El.		0	\$3,030.40	2	\$1,275.20		0	\$480.00	0	\$480.00
53	Henry Reeves El.		0	\$3,409.20	9	\$3,586.50		0	\$540.00	0	\$540.00
54	Hialeah El.		0	\$3,409.20	2	\$1,434.60		0	\$540.00	0	\$540.00
55	Hibiscus El.		0	\$3,409.20	4	\$0.00		0	\$540.00	0	\$540.00
56	Highland Oaks El.		0	\$1,894.00	2	\$797.00		0	\$300.00	0	\$300.00
57	Holmes El.		2	\$1,974.60	2	\$1,434.60		0	\$540.00	0	\$540.00
58	Howard Drive El.		0	\$1,894.00	2	\$797.00		0	\$300.00	0	\$300.00
59	Ivory (Beatrice) Peskoe		0	\$3,409.20	2	\$1,434.60		0	\$540.00	0	\$540.00
60	J. W. Johnson El.		1	\$2,891.90	1	\$2,151.90		0	\$540.00	0	\$540.00
61	Jack Gordon El.		0	\$1,894.00	3	\$398.50		0	\$300.00	1	\$225.00
62	James Bright El.		0	\$3,409.20	4	\$0.00		0	\$540.00	0	\$540.00
63	Jane Roberts El.		2	\$1,097.00	2	\$797.00		0	\$300.00	0	\$300.00
64	Joelle Good El.		0	\$2,272.80	5	\$478.20		0	\$360.00	0	\$360.00
65	John I. Smith El.		0	\$1,894.00	6	\$797.00		0	\$300.00	0	\$300.00
66	Kelsey Pharr El.		2	\$1,974.60	2	\$1,434.60		0	\$540.00	0	\$540.00
67	Kendale El.		2	\$1,097.00	2	\$797.00		0	\$300.00	0	\$300.00
68	Kendale Lakes El.		0	\$2,272.80	7	\$1,434.60		0	\$360.00	0	\$360.00
69	Kensington Park El.		0	\$3,409.20	3	\$717.30		0	\$540.00	0	\$540.00
70	Kenwood El.		0	\$1,894.00	3	\$398.50		0	\$300.00	0	\$300.00
71	Key Biscayne El.		0	\$1,515.20	5	\$318.80		0	\$240.00	0	\$240.00
72	Kinloch Park El.		0	\$3,409.20	3	\$717.30		0	\$540.00	0	\$540.00
73	Lake Stevens El.		0	\$3,409.20	3	\$717.30		0	\$540.00	0	\$540.00
74	Lakeview El.		0	\$3,409.20	2	\$1,434.60		0	\$540.00	0	\$540.00
75	Leewood El.		0	\$1,515.20	3	\$318.80		0	\$240.00	0	\$240.00
76	Liberty City El.		2	\$1,974.60	2	\$1,434.60		0	\$540.00	0	\$540.00
77	Lorah Park El.		0	\$3,409.20	4	\$0.00		0	\$540.00	0	\$540.00

FEDERAL AUDIT (Y2 - 156 E-M. PBX's) APPEAL OPTIONS

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1	NAME OF SCHOOL	SCHOOL E-RATE % LEVEL		SLD "ASM" COUNT	SLD COMMITMENT ADJUSTMENT REQUEST	"ASM" COUNT BASED ON ACTUAL INVENTORY	PROPOSED COMMITMENT ADJUSTMENT BASED ON ACTUAL INVENTORY OF "ASM" UNITS		SLD "ATA" COUNT	SLD COMMITMENT ADJUSTMENT REQUEST	"ATA" COUNT BASED ON ACTUAL INVENTORY	PROPOSED COMMITMENT ADJUSTMENT BASED ON ACTUAL INVENTORY OF "ATA" UNITS
78	Ludlum El.	80%		0	\$3,030.40	4	\$0.00		0	\$480.00	0	\$480.00
79	Mae Walters El.	90%		0	\$3,409.20	2	\$1,434.60		0	\$540.00	0	\$540.00
80	Martin F.C. El.	80%		0	\$2,272.80	5	-\$478.20		0	\$360.00	1	\$270.00
81	Meadowlane El.	80%		0	\$3,030.40	2	\$1,275.20		0	\$480.00	0	\$480.00
82	Merrick Educ	60%		0	\$2,272.80	0	\$1,912.80		0	\$360.00	0	\$360.00
83	Miami Gardens El.	90%		0	\$3,409.20	2	\$1,434.60		0	\$540.00	0	\$540.00
84	Miami Heights El.	80%		0	\$3,030.40	2	\$1,275.20		0	\$480.00	0	\$480.00
85	Miami Lakes El.	50%		0	\$1,894.00	4	\$0.00		0	\$300.00	0	\$300.00
86	Miami Park El.	90%		0	\$3,409.20	3	\$717.30		0	\$540.00	0	\$540.00
87	Miami Shores El.	80%		0	\$3,030.40	2	\$1,275.20		0	\$480.00	0	\$480.00
88	Miami Springs El.	80%		0	\$3,030.40	5	-\$637.60		0	\$480.00	0	\$480.00
89	Milam M. A. El.	90%		0	\$3,409.20	6	-\$1,434.60		0	\$540.00	0	\$540.00
90	Morningside El.	90%		0	\$3,409.20	8	-\$2,869.20		0	\$540.00	0	\$540.00
91	Myrtle Grove El.	90%		0	\$3,409.20	2	\$1,434.60		0	\$540.00	0	\$540.00
92	N. Dade Crt. For Mod. Le	60%		0	\$2,272.80	0	\$1,912.80		0	\$360.00	0	\$360.00
93	Naranja El.	90%		0	\$3,409.20	2	\$1,434.60		0	\$540.00	0	\$540.00
94	Nathan Young El.	90%		0	\$3,409.20	2	\$1,434.60		0	\$540.00	0	\$540.00
95	Norland El.	80%		0	\$3,030.40	5	-\$637.60		0	\$480.00	0	\$480.00
96	North Beach El.	50%		0	\$1,894.00	2	\$797.00		0	\$300.00	0	\$300.00
97	North Carol City El.	90%		0	\$3,409.20	2	\$1,434.60		0	\$540.00	0	\$540.00
98	North Glade El.	90%		0	\$3,409.20	2	\$1,434.60		0	\$540.00	0	\$540.00
99	North Hialeah El.	80%		0	\$3,030.40	2	\$1,275.20		0	\$480.00	1	\$360.00
100	North Miami El.	90%		0	\$3,409.20	2	\$1,434.60		0	\$540.00	0	\$540.00
101	North Twin Lakes El.	90%		0	\$3,409.20	2	\$1,434.60		0	\$540.00	0	\$540.00
102	Norwood El.	80%		0	\$3,030.40	2	\$1,275.20		0	\$480.00	0	\$480.00
103	Oak Grove El.	90%		0	\$3,409.20	3	\$717.30		0	\$540.00	0	\$540.00
104	Ojus El.	50%		0	\$1,894.00	5	-\$398.50		0	\$300.00	0	\$300.00
105	Olinda El.	90%		0	\$3,409.20	2	\$1,434.60		0	\$540.00	0	\$540.00
106	Oliver Hoover El.	50%		0	\$1,894.00	4	\$0.00		0	\$300.00	0	\$300.00
107	Orchard Villa El.	90%		0	\$3,409.20	4	\$0.00		0	\$540.00	0	\$540.00
108	Palm Lakes El.	80%		0	\$3,030.40	2	\$1,275.20		0	\$480.00	0	\$480.00
109	Palm Springs El.	80%		0	\$3,030.40	2	\$1,275.20		0	\$480.00	0	\$480.00
110	Palm Springs No. El.	80%		0	\$2,272.80	5	-\$478.20		0	\$360.00	0	\$360.00
111	Palmetto El.	50%		0	\$1,894.00	7	-\$1,195.50		0	\$300.00	1	\$225.00
112	Parkview El.	90%		0	\$3,409.20	3	\$717.30		0	\$540.00	0	\$540.00
113	Parkway El.	90%		0	\$3,409.20	2	\$1,434.60		0	\$540.00	0	\$540.00

FEDERAL AUDIT (Y2 - 156 E.M. PBX's) APPEAL OPTIONS

A	B	C	D	E	F	G	H	I	J	K	L
1 NAME OF SCHOOL	SCHOOL E-RATE % LEVEL		SLD "ASM" COUNT	SLD COMMITMENT ADJUSTMENT REQUEST	"ASM" COUNT BASED ON ACTUAL INVENTORY	PROPOSED COMMITMENT ADJUSTMENT BASED ON ACTUAL INVENTORY OF "ASM" UNITS		SLD "ATA" COUNT	SLD COMMITMENT ADJUSTMENT REQUEST	"ATA" COUNT BASED ON ACTUAL INVENTORY	PROPOSED COMMITMENT ADJUSTMENT BASED ON ACTUAL INVENTORY OF "ATA" UNITS
114 Perrine El.	80%		0	\$3,030.40	2	\$1,275.20		0	\$480.00	0	\$480.00
115 Phyllis Ruth Miller El.	90%		0	\$3,409.20	8	\$2,869.20		0	\$540.00	0	\$540.00
116 Pine Lake El.	80%		0	\$3,409.20	3	\$717.30		0	\$540.00	0	\$540.00
117 Pine Villa El.	90%		0	\$3,409.20	2	\$1,434.60		0	\$540.00	0	\$540.00
118 Pinecrest El.	40%		0	\$1,515.20	2	\$637.60		0	\$240.00	0	\$240.00
119 Rainbow Park El.	90%		0	\$3,409.20	4	\$0.00		0	\$540.00	0	\$540.00
120 Redland El.	60%		0	\$2,272.80	2	\$956.40		0	\$360.00	0	\$360.00
121 Redondo El.	90%		0	\$3,409.20	1	\$2,151.90		0	\$540.00	0	\$540.00
122 Rockway El.	80%		0	\$3,030.40	2	\$1,275.20		0	\$480.00	0	\$480.00
123 Royal Green El.	80%		0	\$3,030.40	2	\$1,275.20		0	\$480.00	0	\$480.00
124 Royal Palm El.	80%		0	\$3,030.40	4	\$0.00		0	\$480.00	0	\$480.00
125 Ruth K. Broad El.	50%		0	\$1,894.00	3	\$398.50		0	\$300.00	0	\$300.00
126 Santa Clara El.	90%		0	\$3,409.20	2	\$1,434.60		0	\$540.00	0	\$540.00
127 Saunders, Laura C. El.	90%		0	\$3,409.20	6	\$1,434.60		0	\$540.00	0	\$540.00
128 Scott Lake El.	80%		0	\$3,030.40	2	\$1,275.20		0	\$480.00	0	\$480.00
129 Seminole El.	80%		0	\$3,030.40	2	\$1,275.20		0	\$480.00	0	\$480.00
130 Silver Bluff El.	80%		0	\$3,030.40	2	\$1,275.20		0	\$480.00	0	\$480.00
131 Skyway El.	90%		0	\$3,409.20	2	\$1,434.60		0	\$540.00	0	\$540.00
132 Snapper Creek El.	60%		2	\$1,316.40	2	\$956.40		0	\$360.00	0	\$360.00
133 South Hialeah El.	90%		0	\$3,409.20	2	\$1,434.60		0	\$540.00	0	\$540.00
134 South Miami El.	80%		0	\$3,030.40	5	\$637.60		0	\$480.00	0	\$480.00
135 South Miami Heights El.	80%		0	\$3,030.40	2	\$1,275.20		0	\$480.00	0	\$480.00
136 South Pointe El.	90%		0	\$3,409.20	5	\$717.30		0	\$540.00	0	\$540.00
137 Southside El.	90%		0	\$3,409.20	2	\$1,434.60		0	\$540.00	0	\$540.00
138 Springview El.	60%		0	\$2,272.80	2	\$956.40		0	\$360.00	0	\$360.00
139 Stirrup El.	80%		0	\$3,030.40	2	\$1,275.20		0	\$480.00	0	\$480.00
140 Sunset El.	40%		0	\$1,515.20	2	\$637.60		0	\$240.00	0	\$240.00
141 Sunset Park El.	60%		2	\$1,316.40	2	\$956.40		0	\$360.00	0	\$360.00
142 Sweetwater El.	90%		0	\$3,409.20	1	\$2,151.90		0	\$540.00	0	\$540.00
143 Sylvania Heights El.	80%		0	\$3,030.40	2	\$1,275.20		0	\$480.00	0	\$480.00
144 Thana Crowder El.	90%		0	\$3,409.20	2	\$1,434.60		0	\$540.00	0	\$540.00
145 Treasure Island El.	90%		0	\$3,409.20	2	\$1,434.60		0	\$540.00	0	\$540.00
146 Tropical El.	80%		0	\$3,030.40	6	\$1,275.20		0	\$480.00	0	\$480.00
147 Tucker El.	90%		0	\$3,409.20	2	\$1,434.60		0	\$540.00	0	\$540.00
148 Twin Lakes El.	80%		0	\$3,030.40	2	\$1,275.20		0	\$480.00	0	\$480.00

A	B	C	D	E	F	G	H	I	J	K	L
	SCHOOL E-RATE % LEVEL		SLD "ASM" COUNT	SLD COMMITMENT ADJUSTMENT REQUEST	"ASM" COUNT BASED ON ACTUAL INVENTORY	PROPOSED COMMITMENT ADJUSTMENT BASED ON ACTUAL INVENTORY OF "ASM" UNITS		SLD "ATA" COUNT	SLD COMMITMENT ADJUSTMENT REQUEST	PROPOSED "ATA" COUNT BASED ON ACTUAL INVENTORY	PROPOSED COMMITMENT ADJUSTMENT BASED ON ACTUAL INVENTORY OF "ATA" UNITS
1	NAME OF SCHOOL										
148	Village Green El.		2	\$1,755.20	2	\$1,275.20		0	\$480.00	0	\$480.00
150	Vineyard El.		0	\$1,894.00	2	\$797.00		0	\$300.00	0	\$300.00
151	Wesley Matthews Ele.		0	\$3,030.40	3	\$637.60		0	\$480.00	0	\$480.00
152	West Laboratory El.		0	\$1,515.20	3	\$318.80		0	\$240.00	1	\$180.00
153	West Little River El.		0	\$3,409.20	2	\$1,434.80		0	\$540.00	0	\$540.00
154	Whispering Pines El.		0	\$1,894.00	4	\$0.00		0	\$300.00	0	\$300.00
155	William Lehman El.		0	\$1,894.00	2	\$797.00		0	\$300.00	0	\$300.00
156	Winston Park El.		0	\$2,272.80	6	\$956.40		0	\$360.00	0	\$360.00
157	Zora Neale Hurston El.		3	\$1,117.60	2	\$1,275.20		0	\$480.00	0	\$480.00
158											
159											
160											
161			42	\$424,888.30	481	\$90,539.20		0	\$71,100.00	7	\$70,455.00
162	GRAND TOTAL										
163											

\$180,994.20

EXHIBIT 7



Universal Service Administrative Company
Schools & Libraries Division

George McDonald
Vice President

December 6, 2004

VIA E-MAIL AND OVERNIGHT DELIVERY

Rudolph F. Crew, Ed.D
Superintendent of Schools
Miami-Dade County Public Schools
1450 NE Second Avenue
Miami, FL 33132

RE: Compliance with Schools and Libraries Support Mechanism Rules

Dear Dr. Crew:

Miami-Dade County Public Schools (MDCPS) was audited by the Universal Service Administrative Company (USAC) Internal Audit Division (IAD) to evaluate MDCPS's compliance with Federal Communication Commission (FCC) rules relating to the Schools and Libraries Universal Service Support Mechanism (E-rate). The audit focused on Funding Year 1999 (July 1, 1999, through June 30, 2000). Enclosed is a copy of the audit report. The auditors found that some eligible equipment that had been installed at MDCPS by Sprint-Florida, Incorporated (Sprint) had been returned to Sprint and the credit used to cover the cost of ineligible services with no reimbursement to USAC. This is a violation of applicable FCC regulations. Accordingly, USAC issued a Recovery of Erroneously Disbursed Funds (REDF) Letter to Sprint (with a copy to MDCPS) on June 30, 2003 requesting the return of over \$400,000.

Sprint appealed USAC's REDF determination to USAC pursuant to FCC regulations, and in its appeal identified a number of other issues that affect MDCPS's administration of its participation in E-rate. Sprint's appeal is based upon its audit of Sprint's transactions with MDCPS. Enclosed is a redacted copy of Sprint's supplement to its appeal, which Sprint has agreed may be provided to you. The items that have been redacted relate to Sprint's working papers and Sprint's internal processes.

Sprint considers this document to contain highly sensitive business information and requests that you keep this document confidential and limit distribution only to those with a legitimate need to know its contents. **USAC strongly urges you to keep this document confidential, consistent with any legal obligations that may apply to you.** Please contact me at the number below, or USAC's Associate General Counsel Kristy Carroll at (202) 263-1603, if you have any questions about USAC's request that you protect the confidentiality of this document.

Dr. Crew
December 6, 2004

This letter notifies you, as the Superintendent of MDCPS, that the Schools and Libraries Division (SLD) of USAC will take no action on pending or future FCC Forms 471 submitted by MDCPS until USAC determines that MDCPS has reasonably complied with the request explained below. USAC may also heighten its scrutiny of any invoices submitted for services provided to MDCPS.

USAC is responsible for ensuring that funding commitments and disbursements are made in compliance with program rules.¹ In addition, USAC has a fiduciary duty to protect the Universal Service Fund from waste, fraud and abuse.² The authorized representative(s) of MDCPS have made a number of certifications on the FCC Forms 471 and other program forms submitted to USAC on behalf of MDCPS. False or incorrect certifications may result in numerous consequences, including denial of funding, recovery of funds already disbursed and/or other enforcement actions. The audit finding(s) and other issues identified by Sprint indicate that MDCPS failed to comply with one or more of the certifications that were made on program forms and/or that MDCPS has otherwise failed to comply with program requirements.

USAC requests that you provide the information and documentation explained below so that USAC can resume consideration of MDCPS's FCC Forms 471. While you take steps to comply with this request, USAC will reserve funds to make commitments on pending FCC Forms 471 for six months. If no response is received within six months of the date of this letter, or if no reasonable explanation for delay is provided within six months of the date of this letter, USAC will deny pending applications.

If you have received this letter the during the FCC Form 471 filing window, you should submit your FCC Form(s) 471. Receipt of this letter does not indicate that you may not submit FCC Forms 471.

Please note that, depending upon USAC's review of the information that you provide, USAC may also need to request information and documentation in addition to what is requested below.

WHAT TO ADDRESS REGARDING THE AUDIT FINDINGS AND OTHER ISSUES THAT HAVE BEEN IDENTIFIED

Below is an explanation of what to address regarding the audit finding(s) and other issues that have been identified so that a determination can be made regarding the hold on your entity's commitments:

1. Eligible equipment returned by MDCPS to the service provider and the credit used to cover the cost of ineligible services with no reimbursement to USAC.

¹ See generally 47 U.S.C. § 254; 47 C.F.R. § 54.500 *et seq.*

² See 47 C.F.R. § 54.702.

Dr. Crew
December 6, 2004

- a. *You need to provide USAC with a full and complete inventory of all equipment that has been funded by USAC for Funding Years 1999 to the present, indicating the location at which that equipment was installed, the date it was installed, and whether the equipment is currently at that location. If the equipment is no longer at that location, provide a full and complete explanation of why it is no longer at that location, the date that it was removed from that location, and its current location.*
 - b. You need to provide an itemization of all equipment that was funded by USAC for Funding Years 1999 to the present that MDCPS returned to any service provider. You need to specify the equipment that MDCPS received in return for the equipment that was returned. If no equipment was received, you need to otherwise account for the value of the return. For example, if MDCPS received a credit for the value of the returned equipment, so indicate.
 - c. You need to describe any and all corrective actions you have taken to tighten internal controls to ensure that this serious breach of program rules does not occur again.
2. Discrepancies between proposals submitted by service providers and the item 17 or 21 attachments submitted to USAC specifying the goods and services and the cost of those goods and services.
 - a. You need to provide USAC with a full and complete description of any and all discrepancies between proposals by service providers to MDCPS and the FCC Form 471 item 17 or 21 attachments submitted to USAC for Funding Years 1998 to the present. This description must specify any refunds that are due to USAC because MDCPS did not, for example, pass on to USAC lower costs that were in the proposal submitted by the service provider such as a lower cost than was sought for the relevant Funding Request Number (FRN), any volume discounts, and/or the value of trade-ins. Please note that these are examples, and that your description does not need to be limited to these examples. In each instance in which there was a discrepancy, you need to explain why there was a discrepancy.
 - b. If there was no discrepancy on a particular FCC Form 471, you need to state that you have reviewed any and all documentation and have concluded that there is no discrepancy.
 - c. You need to provide a full and complete description of any and all service substitutions for which approval was not requested of USAC.
 - d. You need to describe any and all corrective actions you have taken to tighten internal controls to ensure that this serious breach of program rules does not occur again.

Dr. Crew
December 6, 2004

3. *Service provider invoices to USAC included the cost of equipment that was not provided to MDCPS and included the cost of ineligible equipment.*

- a. If MDCPS determines that a service provider bill to MDCPS for its non-discount share includes goods and services that have not been provided, are not in the process of being provided, or that were not planned to be provided, MDCPS should notify SLD.
- b. You need to describe any and all corrective actions you have taken to tighten internal controls to ensure that this serious breach of program rules does not occur again.

USAC'S REVIEW OF YOUR COMPLIANCE WITH THIS REQUEST

USAC will review your submission to determine whether it reasonably complies with the requirements set forth in this letter and demonstrates that you have adequately addressed the audit findings and other issues identified. USAC may seek additional information and documentation from you as it makes this determination.

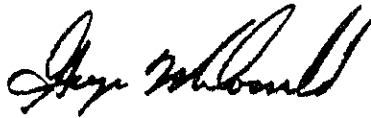
If USAC determines that you have reasonably complied with this request and that you have adequately addressed the audit finding(s) and other issues identified, you will be provided with written notification, and USAC will commence reviewing pending FCC Forms 471. If USAC determines that you have not reasonably complied with this request, your pending funding requests will be denied. Should this occur, you will be able to request review of USAC's decisions consistent with the procedure set out below.

FCC REVIEW OF USAC'S DETERMINATION AS SET FORTH IN THIS LETTER

If you disagree with USAC's determination that it will not make pending or future funding commitments until you have complied with the request in this letter, you may file an appeal with the Federal Communications Commission (FCC). You should refer to CC Docket No. 02-6 on the first page of your appeal to the FCC. Your appeal must be **POSTMARKED** within 60 days of the above date on this letter. Failure to meet this requirement will result in automatic dismissal of your appeal. If you are submitting your appeal via United States Postal Service, send it to: FCC, Office of the Secretary, 445 12th Street SW, Washington, DC 20554. Further information and options for filing an appeal directly with the FCC can be found in the "Appeals Procedure" posted in the Reference Area of the SLD web site or by contacting the Client Service Bureau. We strongly recommend that you use either the e-mail or fax filing options.

Sincerely,

Dr. Crew
December 6, 2004



George McDonald

Vice President

Enclosures:

Schools and Libraries Division Audit Report – Miami Dade County Public Schools, January 17, 2003

Sprint-Florida, Inc., Supplemental Response to Notice of Appeal, January 26, 2004

CC: Sean Murphy, Esq. Sprint-Florida, Incorporated



Universal Service Administrative Company

PRIVILEGED & CONFIDENTIAL

To: Mr. George McDonald, VP of Schools and Libraries Division
From: Internal Audit Division
Date: January 17, 2003
Re: Schools and Libraries Beneficiary Audit Report - Miami-Dade Public Schools -
(SL2002BE009)

Introduction

The Internal Audit Division of the Universal Service Administrative Company performed an audit of the Schools and Libraries Support Mechanism (hereinafter referred to as "SLSM") applications submitted by the Miami-Dade Public Schools (hereinafter referred to as "Miami-Dade"), Billed Entity Number 127722 for Funding Year 1999. The audit fieldwork was performed onsite in Miami, Florida on December 3, 2002 through December 5, 2002 by Wayne Scott, Laurie Ann French, Chris Lenhardt and Amanda Niebauer. Additional fieldwork was conducted from the USAC offices and was completed on Thursday, January 17, 2003.

Purpose and Scope

These procedures were performed solely for the purpose of determining whether the selected School and Libraries applications submitted by Miami-Dade for Funding Year 1999 were in compliance with the rules and regulations set forth by the FCC. Our scope was limited to the review of 21 funding requests that were submitted to SLSM under Form 471 application # 140214.

During the review of the 21 funding requests under application # 140214, we also reviewed Miami-Dade's technology plans, technology budgets, financial statements, OMB Circular A-133 Reports, and discount calculations that were in effect for Funding Year 1998 through Funding Year 2001.

Audit Procedures, Findings, and Responses

A. General Procedures

We obtained and reviewed the following documents:

1. Form 470 (Description of Services Requested and Certification Form)
2. Form 471 (Services Ordered and Certification Form)

3. Funding Commitment Decision Letter (FCDL)

4. *Program Integrity Assurance (PIA)* review notes related to application

B. Understanding the Business

We met with the Director of Miami-Dade's Office of Information Technology (OIT) to obtain a detailed understanding of the processes used by Miami-Dade to monitor and record its participation in the Schools and Libraries Support Mechanism Program (hereinafter referred to as the "program"). We discussed with Miami-Dade the results of communications with the Schools and Libraries Division (SLD) staff regarding the application process and any differences between the application(s) submitted and approved. This discussion included the following: the process for creating and validating the technology plan; completing the application forms; the application structure; the controls over the expenditure of the approved E-rate funds; and the procedures established to monitor claims submitted to the SLD via Billed Entity Application Reimbursement (BEAR Form 472) and/or Service Provider Invoice (SPI Form 474). We found that there are established procedures to sufficiently address program requirements. No exceptions noted.

C. Financial Statements and OMB Circular A-133

We reviewed Miami-Dade's financial statements that covered Funding Years 1998 through 2001 in order to determine if any deficiencies existed that would materially affect the E-rate Program. No exceptions were noted.

D. Eligibility

We reviewed Miami-Dade in order to determine its eligibility status. Miami-Dade is an eligible school system. No exceptions were noted.

E. Discount Calculation / Payment of Non-Discounted Amounts

Miami-Dade is located in an urban location. Per discussion with the Director of OIT, Miami-Dade receives the free and reduced worksheet directly from the state Department of Education (DOE) located in Tallahassee, Florida. Parents of the students attending school in the district complete free and reduced lunch forms, if their student qualifies for the program. These forms are collected at each individual school and forwarded to Nutritional Services in downtown Miami. The forms are assembled and sent to the DOE. The DOE is responsible for the verifying the accuracy of the number of students eligible for free and reduced lunch that was reported. All discount percentages are then calculated separately for each school in the Miami-Dade Public School system.

When Miami-Dade submitted the Form 471 application, a list of all schools along with their respective discount percentages, were provided. The percentages provided by the DOE are utilized to apply for discounts under each application. We reviewed all documentation provided by Miami-Dade to support the discount percentages reported. No exceptions were noted.

F. Site Visit

During our audit, we identified 156 schools that received funding for internal connections under Form 471 application # 140314. This application included 156 Funding Request Numbers (FRNs) that were associated with the 156 elementary schools that received internal connections. We selected a sample of 21 schools from the Form 471 in order to perform physical inventories of internal connections that were funded by Schools and Libraries Support Mechanism. For each of the 21 schools selected, we identified a list of funded equipment and obtained the corresponding service provider invoice.

We performed physical inventories of the internal connections, which included Private Branch Exchange (PBX) systems and related technological components that were installed at each of the sampled schools. Each PBX system inventoried should have included specific components, namely 4 Analog Systems Modules (ASM's) and 4 Analog Terminal Adapter (ATA's). We anticipated inventorying a total of 84 ASM's and 84 ATA's that were funded under the respective FRN for each school. The results of our physical inventory revealed that 42 ASM's out of a total of 84 ASM's could not be located at the schools selected. Furthermore, we could not locate or verify the existence of any of the 84 ATA's. Based on the documentation received and the physical inventories performed at the schools sampled, we estimated the total amount funded by SLD for the equipment that could not be located to be \$33,209.10. Extrapolating the results of our inventory to the total 156 schools, we estimate this amount to be \$260,068.70.

Further documentation was requested to support the installation and receipt of the PBX equipment and its related components, however Miami-Dade was unable to provide any of the requested supporting documentation. Furthermore, it was noted that Miami-Dade had determined that the PBX systems were deemed a part of the schools and therefore were not tracked in Miami-Dade's property and inventory tracking systems.

Schools and Libraries Division - Management Response:*Programmatic Actions*

1. SLD has increased the number of invoices requiring service checks. A service check requires verification that:
 - a. Services being invoiced are eligible.
 - b. Services being invoiced have been approved on Form 471 or are eligible under service substitution guidelines.
 - c. Services being invoiced are confirmed as being received by the applicant.
2. SLD has increased the number of beneficiary audits. The first two rounds of beneficiary audits were targeted. Round one included 17 beneficiaries. In round two, that number was increased to 25 beneficiaries. The third round of beneficiary audits will include 78 randomly selected beneficiaries. Furthermore, the Internal Audit Division is engaged in conducting a review of an estimated 30 additional beneficiaries.

Applicant Specific Actions

1. SLD will process a recovery of erroneously disbursed funds for \$33,209.10 for the missing equipment at the 21 sampled schools. Additionally, SLD will process a recovery of erroneously disbursed funds for all the ASMs and ATAs invoiced to SLD for the remaining 135 schools that were not inventoried. This is the appropriate approach as the district was unable to provide the requested supporting documentation for the installation and receipt of the equipment at the sampled schools. Therefore, SLD has no assurance that any of the equipment is present. This approach would result in a recovery for the 135 schools that were not audited of \$398,567.80 (pre-discount \$540,425.00). The applicant could, of course, appeal providing appropriate documentation to verify the presence of the equipment.

G. Technological Plan and Budget

We requested Miami-Dade's approved technology plans that were in effect for Funding Years 1998 through 2001. We verified that it established clear goals and strategies (including professional development) for using information technology to improve education. Miami-Dade provided approved technology plans for Funding Years 1998, 1999, and 2001-2004. We noted that all technology plans were approved by the Florida Department of Education. The USAC Internal Audit Division contacted the Bureau of Educational Technology of the Florida Department of Education, and independently verified that Miami-Dade's Technology Plans were approved for all funding years reviewed. The Florida Department of Education requested that Miami-Dade revise their Technology Plans during Funding Year 1999 and approved the revised technology plans for a period of three years. The Internal Audit Division noted that the approval letter for the Funding Year 1999 technology plan was dated February 19, 1999, while the certification date on Form 486 is September 21, 1999. Since the actual approval date precedes the date listed on Form 486, no further action deemed necessary.

Miami-Dade has developed a method to manage the implementation of technology throughout the school district. The "Christmas Wreath" chart is used to monitor the technology level at each of the county's schools in eight categories. The categories that are monitored are:

- | | | |
|---|--------------------------|--|
| 1 | Power | When there are two or less computers per outlet. |
| 2 | Terminals | When the number of terminals at the school location is zero. |
| 3 | Backbone | When the Backbone is Switched and the speed 100 Megabite. |
| 4 | WAN | When the number of Classroom Computers on the WAN is greater than zero. |
| 5 | Administrative Computers | Administrative Computers on the WAN is equal to or greater than 70%. |
| 6 | Instructional Computers | When the Classroom Computers on the WAN is equal to or greater than 70%. |
| 7 | Wiring | When 70% of the classrooms have two or more wired jacks. |
| 8 | Telephone Switch | Green - New Switch/T1, Yellow - T1, Red - No/T1. |

The chart allows the Miami-Dade administrators to determine how each school in the district complies with the technology plan. The chart can be accessed at:
<http://www.dadeschools.net/infrastructure/index.html>. No exceptions were noted.

We requested copies of Miami-Dade's budget for Funding Years 1998, 1999, 2000, and 2001 in order to determine if Miami-Dade had budgeted for their non-discounted portion of the technological related costs related to the E-Rate Program. Miami-Dade received \$1,288,314.80 in funding commitments for Internal Connections in Funding Year 1999. Miami-Dade's 10% share was \$128,831.48. According to Miami-Dade, the school district budgets for 100% of the cost of Telecommunications services for the school district. Miami-Dade's Annual Budget Plan includes \$17,974,666 for the purchase of energy services and other utilities for the District. Included within this line item are expenses for telephone equipment rentals and other telephone expense. No exceptions were noted.

This concludes the results of our audit.

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cc: C. Parrino
S. Barash

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
SCHOOLS AND LIBRARIES DIVISION

CONFIDENTIAL TREATMENT REQUESTED

January 26, 2004

Letter of Appeal
Schools and Libraries Division
Universal Service Administrative Company
2000 L Street N.W., Suite 200
Washington, DC 20036

Re: Supplemental Response to Notice of Appeal
Recovery of Erroneously Disbursed Funds, dated June 30, 2003
Form 471 Application No. 140214
Applicant: Dade County Public Schools a/k/a Miami-Dade County Public Schools
Funding Year 1999
Funding Request Numbers Affected: All in Application No. 140214
plus others as specified in Attachment #1

Dear Sir or Madam:

Sprint-Florida, Inc., for itself and its corporate parent(s), subsidiaries and affiliates (collectively, "Sprint"), hereby updates its August 28, 2003 appeal (the "Appeal") of the request for Recovery of Erroneously Disbursed Funds identified above (the "Request").

I. SUMMARY

On June 30, 2003, the Universal Service Administrative Company ("USAC") issued the Request to Sprint. The Request identified overpayments by USAC totaling just under \$425,000 for Funding Year 1999. The Request described a physical audit of 21 schools in the Miami-Dade County Public Schools system ("Miami-Dade") in which the auditors looked for four analog terminal adaptors ("ATAs") and four analog station modules ("ASMs") at each school. The auditors failed to find any ATAs and found an average of only two ASMs at each school. The Request then assumed that neither ATAs nor ASMs were present at 135 additional schools covered by the same Miami-Dade funding application.¹

In its Appeal, Sprint identified concerns with the basis for and methodology of the Request. Sprint also advised that it had begun an investigation into the transactions identified in the Request and that the preliminary results of that investigation suggested possible discrepancies

¹ See generally, Universal Service Administrative Company, *Recovery of Erroneously Disbursed Funds*, June 30, 2003.

CONFIDENTIAL TREATMENT REQUESTED

that may have resulted in additional erroneously disbursed funds. Sprint promised to follow up with USAC once it had completed its investigation.¹

On December 29, 2003, Sprint met with USAC to report the results of Sprint's internal investigation. For the two issues identified in the Request, Sprint believes that USAC made overpayments of \$98,857, as opposed to the \$424,888 included in the Request.² We also advised USAC that our audit identified other errors related to the 156 key system funding requests identified in the Request, as well as 46 similar Miami-Dade funding requests during Funding Year 1998, resulting in overpayments by USAC of \$672,146.⁴

Issues Identified in Request:

ATAs Not Installed:	\$62,787
<u>ASMs Returned by Miami-Dade:</u>	<u>\$36,070</u>
Subtotal:	\$98,857

Other Issues at Schools Identified in Request and similar Funding Year 1998 Schools:

Equipment Not Provided:	\$40,393
Billing for Ineligible Equipment:	\$30,347
Overpricing:	\$90,309
Volume Discounts:	\$256,172
Trade-in Credits:	\$123,475
<u>Equipment Returns & Exchanges:</u>	<u>\$32,593</u>
Subtotal:	\$573,289

Sprint subsequently expanded the scope of its internal audit to include all its E-Rate transactions with Miami-Dade County Public Schools. We found 355 additional funding requests beyond the 202 funding requests identified above.⁵ Sprint has now discovered that Miami-Dade's Form 471 applications were misstated in certain respects, and that there were certain mistakes in Sprint's billing. As a result, USAC likely overpaid \$573,633 for these additional transactions.

² See generally Sprint-Florida Incorporated, *Notice of Appeal* (August 28, 2003) (hereinafter, "Appeal").

³ The monetary figures in this Supplemental Response are Sprint's final determination of amounts owed to USAC; these may differ from the numbers in our December 29, 2003 presentation.

⁴ From our review of Miami-Dade's Form 471 Applications, it appears that Miami-Dade's standard practice was to file a single application for a particular type of equipment, with multiple funding requests corresponding to the number of schools receiving that equipment. Application No. 140312 included 156 funding requests, for the purchase of key systems at 156 elementary schools. In Funding Year 1998, Miami-Dade filed Application No. S4402 with 202 funding requests for key systems at its elementary schools; it subsequently opted to install the approved systems at only 46 elementary schools.

⁵ Using our internal E-Rate tracking database compiled from USAC reports, Sprint identified 357 transactions or funding requests for Miami-Dade (excluding the 202 elementary school key systems). One funding request appears to have been a duplicate of an authorized transaction (with no invoicing to USAC on that duplicate), while another funding request received no funding commitment. Of the 355 valid funding requests, Sprint has invoiced USAC for all 355 while USAC has paid Sprint for only 242.

Issues in Remaining Miami-Dade E-Rate Transactions:

Billing for Ineligible Equipment:	\$512,005
Equipment Returns & Exchanges:	\$11,981
Transaction without Documentation:	\$49,647
Subtotal:	\$573,633

TOTAL OVERPAYMENT: \$1,245,779

Sprint is taking steps to improve E-Rate processes in its local division in two main areas: order entry and processing, and account reconciliation and billing. Initially, we have formed a special task force of order entry and billing personnel to review pending E-Rate transactions prior to invoicing USAC. By July 1, 2004, we plan to implement standard process controls. In order entry, processing and billing, our focus is on confirming that orders match the information approved by USAC, verifying the initial eligibility of equipment and services during billing set-up and then reviewing this reconciliation again before final invoice preparation. Additionally, Sprint is developing a standard process for storing all bid, contract, installation and billing documentation for E-Rate orders.

Sprint would emphasize that it received no direct benefit from any of the errors identified in this Response. Sprint invoiced the total amount due for each project and collected no more money than it was entitled to receive for work performed and equipment furnished. The error was in how invoiced amounts were allocated between USAC and Miami-Dade, fueled by inconsistencies between Sprint's bid and installation documents, Miami-Dade's Form 471 Application and USAC's funding commitments. In each instance identified in this Response, the party benefiting from USAC's overpayments is Miami-Dade, not Sprint. Nevertheless, Sprint will refund these overpayments in full to USAC as required by USAC's rules for all Universal Service Fund disbursements.

II. SPRINT'S INVESTIGATION

As Sprint has advised USAC, we performed a comprehensive internal audit of the transactions identified in the Request, and subsequently expanded the audit to cover all E-Rate transactions with Miami-Dade. The transaction audit team spent thousands of hours collecting and reviewing all available physical records documenting sales, installations and returns from Miami-Dade; researching and reviewing electronic order entry, job costing and billing system records; and interviewing subject matter experts throughout Sprint for all stages of the transaction process.

Sprint audited each of the 156 transactions identified in the Request and each of the 46 similarly-situated transactions from Funding Year 1998. Each transaction corresponds to an individual funding request for a single elementary school to receive a key system. For the remainder of Miami-Dade's E-Rate transactions with Sprint, we stratified the transactions into seven sets, according to similarities in equipment package applied for by Miami-Dade, authorized by USAC and installed by Sprint. The audit team then tested twelve to thirty percent of the total population for the first six sets. We found little variance across the results of our

sample populations and therefore feel comfortable extrapolating the audit results to reach a total overpayment for each of these six sets. The final set was comprised of unique transactions that did not correspond to the six well-defined sets either in equipment configuration or in price. Therefore, we audited the entire population of this seventh set.

Sprint also assigned a second audit team to assess all of Sprint's E-Rate processes, from initial customer contacts to payment receipt. This team observed the current E-Rate processes to determine if controls were adequate to ensure (1) compliance with program terms and conditions; (2) complete and accurate billing; and (3) adequate audit trail availability.

Since July 2003, Sprint's audit teams have spent over 4,500 hours conducting the Miami-Dade and the E-Rate process audits. Sprint's Corporate Audit Services department has reported its findings to the highest levels of Sprint's management, which fully supports both prompt repayment of all USAC overpayments and swift implementation of improvements and recommendations developed in the process audit. Our goal is to continue serving as a valued partner both to USAC and to the schools and libraries that benefit from Sprint's wide array of services and products.

III. ISSUES APPEALED FROM REQUEST

A. Proper Accounting for Actual Prices

The refund amount included in the Request was based on the list price for ATAs and ASMs found in the Item 21 attachment to Miami-Dade's Form 471 application. The Item 21 attachment, however, contains a volume discount applied at the bottom of the invoice, instead of being applied to each item's unit price. As noted in the Appeal, Sprint believes that the final valuation of the Request should take into account this volume discount when determining the pre-discount prices for ATAs and ASMs.⁶ Sprint has incorporated this discount in its calculations below for the value of overpayments related to ATAs and ASMs.

B. Installation of Analog Terminal Adaptors

At the time of its Appeal, Sprint had no evidence to suggest that any ATAs were installed at Miami-Dade schools during Funding Year 1999. Instead, the available evidence indicated that no ATAs were necessary to meet Miami-Dade's technical needs and that Sprint had not included ATAs in its bid. We therefore contested all repayments associated with the ATAs.⁷ Sprint's installation documents from each site further confirm that no ATAs were furnished to the 156 schools identified in the Request.⁸

With USAC's assistance, Sprint obtained copies of the Block Five and Item 21 attachments from the Form 471 Application No. 140214 filed by Miami-Dade. The Item 21 Attachment, although similar in appearance to Sprint's bid and system configuration documents,

⁶ See Appeal at 4.

⁷ See id. at 2-3.

⁸ See, e.g.,

shows four ATAs for each school.⁹ Sprint cannot verify the source of the Item 21 Attachment and had not seen that document prior to receiving Miami-Dade's Form 471 application from USAC in the fall of 2003.

To our knowledge, Miami-Dade never submitted a service substitution to identify changes between its Form 471 application and the eventual installation at each school, but it did file a Form 486 Certification of its receipt of equipment matching its application. We have confirmed that no ATAs were installed at the 156 schools identified in the Request.¹⁰ Invoices submitted to USAC, however, incorporated the full funding commitment, including the cost of four ATAs per school. This was a mistake. Accordingly, Sprint will refund USAC \$62,787.14 for Miami-Dade's request for four ATAs at each of the 156 schools identified in the Request, as computed below:

$\$150.00 \text{ unit price} \times 4 \text{ ATAs per school} = \600.00
 $\$600 \text{ per school value} - 11.69\% \text{ volume discount} = \529.86
 $\$529.86 \times 156 \text{ schools in Request} = \$82,658.16$
 $\$82,658.16 \times 75.96\% \text{ average discount percentage}^{11} = \$62,787.14$

NY-DCPS
\$ 25,730.4

C. Installation of Analog Service Modules

Sprint's bid and Miami-Dade's Form 471 both indicate that as part of the requested and approved key system, Sprint would provide four ASMs for each school.¹² The Request states that USAC audited 21 schools and found only 42 ASMs, as opposed to the expected total of 84 ASMs. The USAC auditors concluded that the missing ASMs were never purchased by the schools, but that this equipment was invoiced to USAC. The Request demanded a refund for the missing ASMs at these 21 schools. For the unaudited schools, however, the Request demands a refund for all 4 ASMs per school, contrary to the evidence developed in the USAC audit. Sprint's Appeal asked that USAC adjust the Request to reflect the reasonable extrapolation that two ASMs would be found in the unaudited schools, just as they were found to be present at the audited schools.¹³

Sprint's installation documents, costing system reports and order entry and billing system verify that four ASMs were sold to and installed at each school.¹⁴ Sprint's warehousing, inventory and returns documents indicate minimal returns of ASMs from Miami-Dade schools in the ordinary course of business.¹⁵ The E-Rate guidelines applicable during Funding Year 1999 required that Internal Connections equipment be present for only one year following

⁹ Compare: Attachment to Miami-Dade County Public Schools, Application for Universal Service Fund Support, Funding Year 1999).

¹⁰ See:

¹¹ For ease of calculation, Sprint determined the average discount percentages across all the schools identified in the Request.

¹² See:

¹³ See Appeal at 2-4.

¹⁴ See:

¹⁵ See:

installation.¹⁶ With the exception of USAC's physical audit (which occurred more than one year after Sprint's installations), the evidence strongly indicates that four ASMs were installed at each school, in accordance with Sprint's bid, Miami-Dade's Form 471 application, and Sprint's installation documents.¹⁷

Separately, however, Sprint learned that Miami-Dade returned 93 ASMs previously installed as part of the approved key system package. These returns occurred during the same funding year in which the ASMs were installed. We have no evidence of the original installation sites for these ASMs, but both a Miami-Dade document and the recollection of a Sprint warehouse employee confirm the returns.¹⁸ It appears that Sprint inadvertently neglected to correct its billing records to reflect these returns, and we will refund \$36,070, the discounted portion of the cost for these 93 ASMs.¹⁹

Unit Price after all volume discounts and trade-in credit = \$510.59

\$510.59 x 93 ASMs returned = \$47,484.87

\$47,484.87 x 75.96% average discount = \$36,069.50

IV. ADDITIONAL ISSUES FOR SCHOOLS IDENTIFIED IN REQUEST

A. Summary

After receiving Miami-Dade's Form 471 application for the 156 schools identified in the Request, Sprint identified a number of discrepancies between the Item 21 attachment submitted by Miami-Dade and Sprint's documentation for these transactions: inclusion of equipment that did not appear in Sprint's bid and was not provisioned; incorporation of ineligible equipment into final invoices submitted to USAC; pricing items higher in the 471 than in Sprint's bid or Sprint's final invoice to Miami-Dade; failure to pass along a manufacturer's volume discount to USAC; failure to pass along a credit for equipment trade-ins to USAC; and exchanges of equipment acquired using E-Rate funding for ineligible equipment.

Sprint also reviewed transactions with 46 other Miami-Dade schools, not included in the Request, that had received very similar key systems during Funding Year 1998. These transactions first came to Sprint's attention through a grand jury subpoena received in February 2003 from the United States Attorney's Office in Miami. Sprint is only a witness in the grand jury matter and has no way of actually knowing its scope. The errors in processing equipment returns and exchanges identified for the Request schools also were present in these Funding Year 1998 schools. For simplicity, therefore, we have considered all 202 Miami-Dade elementary school key system transactions in the following discussion.²⁰

¹⁶ See, e.g., Federal Communications Commission, *Third Report and Order and Second Further Notice of Proposed Rulemaking*, December 23, 2003 at ¶ 9 (noting that nothing in 47 C.F.R. § 54.617 prohibited a school or library from transferring equipment to other entities and replacing such equipment on an annual basis).

¹⁷ See FCC, Office of Inspector General Semi-Annual Report to Congress, Apr. 1 - Sept. 30, 2003, at 5 (documenting when USAC's contractor audited Funding Year 1999 schools).

¹⁸ See:

¹⁹ The basis for this refund calculation is explained in Section IV *infra*.

²⁰ Review of the 46 Funding Year 1998 funding requests was complicated by the fact that USAC approved Miami-Dade's Form 471 for a different service provider offering a Lucent key system. See Miami-Dade County Public

B. Items Neither Bid Nor Installed by Sprint

In addition to the ATAs discussed previously, Miami-Dade's Form 471 application for Funding Year 1999 identified a "fiber 2-port expansion module" and one unit of "additional labor" as part of the total package price.²¹ Sprint's bid did not include these items.²² Sprint's billing, project costing and installation reports indicate that Sprint neither provided this particular expansion module to Miami-Dade nor charged any additional labor for the projects in question.²³ It appears, however, that USAC's funding commitments were billed in full, regardless of the equipment installed. The invoice to USAC improperly included \$40,393.46 in funds for equipment not provided:

Fiber 2-Port Expansion Module unit price = \$321.00
Additional Labor Unit = \$65.00
Sum less 11.69% volume discount = \$340.88
 $\$340.88 \times 156 \text{ schools} \times 75.96\% \text{ average discount} = \$40,393.46$

C. Inclusion of Ineligible Equipment in Sprint Invoicing

The standard equipment installation package for the 156 elementary schools identified in the Request included both eligible and ineligible equipment.²⁴ Sprint did not separate the Miami-Dade project into eligible and ineligible pieces. This was not an error *per se*, but it may have contributed to errors in subsequent invoices.

For example, the Funding Commitment Decision Letter for the Request schools specifically disallowed a remote access device ("RAD") prior to setting a funding commitment.²⁵ Sprint proposed and installed a RAD in each Request school.²⁶ Sprint's invoices to USAC requested the maximum committed amount, regardless of the equipment actually installed or its cost. This may have resulted in the use of USAC funding to subsidize RAD purchases.

RAD unit price less 11.69% volume discount: \$256.10
 $\$256.10 \times 156 \text{ schools} \times 75.96\% \text{ average discount} = \$30,347.24$

Schools, Application for Schools and Libraries Funding Program No. 54402. Following receipt of its funding commitments, we understand that Miami-Dade filed a Service Provider Identification Number change to designate Sprint as its service provider. We have no evidence, however, that Miami-Dade filed a service substitution to switch from Lucent equipment to Nortel equipment.

Sprint carefully reviewed these 46 Funding Year 1998 packages in accordance with USAC's eligibility guidelines to identify eligible components of the systems it bid, installed and invoiced. Our findings indicate that Sprint invoiced USAC only for amounts attributable to eligible equipment installed at these 46 schools. See, e.g., Exhibit A (representative Funding Year 1998 school file).

²¹ See

²² See

²³ See

²⁴ See Appeal,

²⁵ See

²⁶ See

(representative page from 1999 funding commitment decision letter).

Sprint's bid also included various ineligible equipment, including telephone handsets and key lamps.²⁷ These items were listed on Miami-Dade's Form 471 application with a quantity of zero, despite the necessity of these items to make use of the key systems proposed.²⁸ We have not proposed a separate dollar value for these items, however, as this would unfairly result in double-counting USAC's overpayment. The effect of the errors identified in this Section IV was to use the USAC overpayments to subsidize the purchase of these ineligible items.

D. Pricing of Items Bid and Installed by Sprint

Miami-Dade's Form 471 application shows unit pricing of \$9,288 for the "ICS Key System" and \$799 for the "PRI Enabler."²⁹ Sprint's bid document shows lower prices for each item.³⁰ Sprint's billing and project costing reports indicate that Sprint provided these items at the prices bid, not the prices presented to USAC by Miami-Dade.³¹ The subsequent treatment of each commitment resulted in USAC overpayments of \$90,309.39:

Form 471, ICS Key System Price = \$9288.00
Sprint Bid, ICS Key System Price = \$8865.00
Difference = \$423.00

Form 471, PRI Enabler = \$799.00
Sprint Bid, PRI Enabler = \$359.00
Difference = \$440

Sum of differences less 11.69% volume discount = \$762.12
 $\$762.12 \times 156 \text{ schools} \times 75.96\% \text{ average discount} = \$90,309.39$

E. Manufacturer's Volume Discount

Miami-Dade's Form 471 application disclosed a volume discount of 11.69% applied to the total package price.³² By contrast, Sprint provided Miami-Dade with an additional discount of nearly 20 percent off the package price.³³ Sprint's records indicate that this additional discount was offered by the original equipment manufacturer based on the size and timing of Miami-Dade's total purchase, and that Miami-Dade received the benefit of this manufacturer's discount.³⁴

USAC had no opportunity to consider this manufacturer's volume discount when determining the appropriate pre-discount and commitment amounts for each school, and

²⁷ See:

²⁸ See:

²⁹ See *id.*

³⁰ See:

³¹ See:

³² See

³³ See

³⁴ See

(Item 21 Attachment).

therefore made overpayments of \$256,171.67. We calculated the impact of the manufacturer's discount by starting with the value of the "eligible package," defined as the equipment package presented in Miami-Dade's Form 471 Application less the ineligible RAD, the overpricing and the items not furnished to Miami-Dade. We then compared the price of this package at the discount level presented in the Form 471 to the price with the additional discount:

Eligible Package Price (after 11.69% discount) = \$9,588.70
Eligible Package Price (after 31.60% discount) = \$7,426.87
Difference = \$2,161.83
 $\$2,161.83 \times 156 \text{ schools} \times 75.96\% \text{ average discount} = \$256,171.67$

F. Trade-in Credit for Existing Miami-Dade Equipment

A supplement to Miami-Dade's Request for Proposals for Funding Year 1999 invited bidders to accept a trade-in of existing AT&T/Lucent MERLIN key systems.³⁵ These systems had been purchased prior to the establishment of the E-Rate Program, so Miami-Dade was free to dispose of this equipment as it saw fit. Sprint valued the MERLIN systems at \$1,042 each and included this trade-in credit in its final proposal to Miami-Dade.³⁶

Miami-Dade's Form 471 application failed to incorporate this trade-in credit when calculating the total package price.³⁷ Other records further confirm that Miami-Dade received the benefit of this trade-in credit.³⁸

USAC had no opportunity to consider this trade-in credit when determining the appropriate pre-discount and commitment amounts for each school. One plausible interpretation for this exclusion is that Miami-Dade considered the trade-in credit a part of its contribution toward each purchase. We note, however, that the trade-in credit was applied to the total package price during the bidding process, prior to USAC's consideration of the Form 471 application. Sprint therefore believes that the pro-rata portion of the trade-in credit for each Request school should have been reflected in the E-rate funding request and subsequent Sprint invoices. The value of this pro-rata trade-in credit is \$123,474.50:

Trade-in Credit: \$1,042
 $\$1,042 \times 156 \text{ schools} \times 75.96\% \text{ average discount} = \$123,474.50$

G. Exchanges of Eligible Equipment for Ineligible Equipment

In addition to the 93 ASMs discussed previously, we believe that Miami-Dade exchanged other eligible equipment it purchased during Funding Years 1998 and 1999. Although the warehousing and costing records are incomplete, it appears that Miami-Dade asked Sprint to apply credits from returning E-Rate eligible items toward purchases of or upgrades to ineligible voice mail systems. The final invoices did not reference the exchanges. When the value of the

³⁵ See /
³⁶ See:
³⁷ See:
³⁸ See:

(Item 21 Attachment).

exchanged eligible equipment is deducted from Sprint's subsequent USAC billing, USAC is entitled to a refund of \$32,593.24:

Funding Year 1998 Returns:

Item	Unit Price (less 31.60% discount)	Quantity Range	Minimum Returned	Maximum Returned
ATAs	\$102.60	139 - 148	\$14,261.40	\$15,184.80
ASMs	\$545.15	28 - 29	\$15,264.20	\$15,809.35
Service Cartridge	\$238.72	0 - 1	\$0	\$238.72
Fiber 2-Port Expansion Module	\$219.56	4 - 9	\$878.24	\$1976.04
PRI Enabler	\$245.56	1 - 3	\$245.56	\$736.68
Sub-Total			\$30649.40	\$33945.59
Average Value of Returns			\$32,297.50	
USAC Contribution (87.83% average discount)			\$28,366.89	

Funding Year 1999 Returns:

Item	Unit Price (less 31.60% discount and trade-in credit)	Quantity	Dollar Value Returned
LS/DS Analog Trunk Cartridge	\$162.72	1	\$162.72
Digital Trunk Interface	\$1292.80	4	\$5171.20
PRI Enabler	\$229.99	1	\$229.99
Sub-Total			\$5,563.91
USAC Contribution (75.96% average discount)			\$4,226.35

Total Value of Returns: \$32,593.24

H. Substitution of Services Cartridge

Miami-Dade's Form 471 Application includes a "Services Cartridge" (sic) with a list price of \$349.00 before any discounts.³⁹ This component was approved by USAC as part of the overall equipment package. Sprint's original bid shows a different "Combination Fiber 6-Port Services Cartridge" with a list price of \$904.00 before any discounts.⁴⁰ Our job costing and installation documents confirm that the more expensive 6-Port Services Cartridge was installed at each school identified in the Request.⁴¹

Since the Form 471 Application and Funding Commitment Decision Letter formed the basis for invoice allocations, we believe that USAC was charged only for its share of the \$349.00 Services Cartridge, with Miami-Dade being invoiced for the added expense of the 6-Port Services Cartridge actually installed. Accordingly, USAC did not overpay for the device that was actually installed. While we have no evidence that Miami-Dade filed a service substitution for this device, USAC's payments toward the cheaper services cartridge were appropriate and in

³⁹ See:

⁴⁰ See

⁴¹ See